

## Message Text

CONFIDENTIAL

PAGE 01 LISBON 00567 01 OF 02 231656Z  
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 INR-05 CIAE-00 TRSE-00 EB-04  
SP-02 NSC-05 NSAE-00 L-01 IGA-01 OMB-01 /042 W  
-----108999 231716Z /47  
R 231614Z JAN 78  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 4468

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 0567

LIMDIS

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: XGDS  
TAGS: EFIN, ECON, PO  
SUBJECT: PORTUGAL AND THE IMF

REF: LISBON 540

BEGIN SUMMARY: BANK OF PORTUGAL VICE GOVERNOR INFORMED ECON COUNSELOR JANUARY 20 THAT NEW PORTUGUESE ADMINISTRATION WILL SEEK REINITIATE IMF NEGOTIATIONS ASAP. PRINCIPAL REMAINING DIFFERENCES TO BE RESOLVED CONCERN INTEREST RATE POLICY AND CREDIT CEILINGS. NEW ADMINISTRATION WILL REQUEST NEGOTIATION OF USG BILATERAL LOAN. NEED FOR THESE FUNDS WILL SOON BECOME URGENT SINCE BANK OF PORTUGAL LIQUID RESERVES WILL FALL TO APPROXIMATELY \$120-140 MILLION BY THE END OF JANUARY. PRIME MINISTER SOARES LIKELY TO ENCOUNTER CONSIDERABLE DIFFICULTY FILLING ECONOMIC POSITIONS IN HIS NEW CABINET.  
END SUMMARY.

1. ECON COUNSELOR HELD EXTENSIVE DISCUSSION WITH BANK OF PORTUGAL VICE GOVERNOR VITOR CONSTANCIO FRIDAY, JANUARY 20. FOLLOWING SUMMARIZES MAJOR POINTS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 00567 01 OF 02 231656Z

2. IMF NEGOTIATIONS: NEW PORTUGUESE ADMINISTRATION WILL SEEK REINITIATE DISCUSSION WITH IMF AT EARLIEST POSSIBLE OPPORTUNITY. TWO MAJOR POINTS OF FRICTION REMAIN TO BE RESOLVED. FIRST IS INTEREST RATES. CONSTANCIO STATED AGAIN THAT HE IS PREPARED TO ACCEPT A RISE IN INTEREST RATES. HE STILL FEARS, HOWEVER, THAT THE FIVE POINT INCREASE RECOMMENDED BY THE FUND MISSION WOULD HAVE AN

UNACCEPTABLY LARGE NEGATIVE IMPACT ON THE DOMESTIC ECONOMY. HE REMARKED, HALF HUMOROUSLY, THAT THE CENTER DEMOCRATS (CDS) HAVE APPARENTLY REVERSED THEIR POSITION ON THIS ISSUE. WHEREAS THEY HAD PREVIOUSLY OPPOSED ANY RISE IN INTEREST RATES, THEY NOW SEEM DISPOSED TO ACCEPT ALMOST ANY INCREASE. SECOND MAJOR POINT OF FRICTION WITH IMF CONCERNS CREDIT CEILINGS. CONSTANCIO INSISTED THAT THE DIFFERENCE STEMMED FROM THE IMF'S UNREALISTICALLY LOW PROJECTION FOR PORTUGAL'S 1978 INFLATION RATE. IF THE TWO PARTIES COULD AGREE ON AN INFLATION PROJECTION, HE IMPLIED, THEY WOULD REACH AGREEMENT ON A CREDIT CEILING FAIRLY EASILY. CONSTANCIO IS, HOWEVER, HIGHLY CONCERNED ABOUT THE DISTRIBUTION OF CREDIT WITHIN THAT CEILING. HE BELIEVES THAT CREDITS TO PUBLIC SECTOR COMPANIES SHOULD BE CATEGORIZED WITH THOSE GIVEN THE PRIVATE SECTOR OR, AT LEAST, THAT A SEPARATE SUBCATEGORY SHOULD BE ESTABLISHED FOR THEM. IF PUBLIC SECTOR ENTERPRISES DO NOT RECEIVE REASONABLE AMOUNTS OF CREDIT, HE FEARS THEY WILL FACE A DISASTROUS SITUATION, ESPECIALLY SINCE THEY ARE GROSSLY UNDER-CAPITALIZED.

3. USG BILATERAL LOAN: NEW GOP ADMINISTRATION, AS SOON AS IT IS ORGANIZED, WILL REQUEST NEGOTIATION OF USG BILATERAL LOAN. HE BELIEVES, HAVING REVIEWED DRAFT LOAN DOCUMENT, THAT FINAL LOAN AGREEMENT CAN BE REACHED DURING A SINGLE FORMAL SESSION.  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 00567 01 OF 02 231656Z

4. RESERVE POSITION: GOP WILL HAVE AN URGENT NEED FOR USG LOAN. (HE GAVE NO INDICATION THAT HE FELT USG WOULD PERMIT DRAWDOWN OF THE LOAN BEFORE GOP MAKES FURTHER SUBSTANTIAL PROGRESS IN ITS IMF NEGOTIATIONS.) BANK OF PORTUGAL, THROUGH GOLD SALES AND POSTPONEMENT OF SHORT-TERM LOAN REPAYMENTS, HAD RAISED ITS LIQUID RESERVES TO \$320 MILLION AT THE END OF DECEMBER 1977. NET EXCHANGE LOSS IN JANUARY, HOWEVER, WILL APPROXIMATE \$200 MILLION AS PAYMENTS POSTPONED IN ECEMBER FALL DUE. (BANK OF PORTUGAL HAS SOLD NO GOLD THIS MONTH BECAUSE IT LACKS GOVERNMENT AUTHORIZATION.) BY THE END OF JANUARY, THEREFORE, LIQUID RESERVES WILL FALL TO APPROXIMATELY \$120-140 MILLION.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 00567 02 OF 02 231700Z  
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 INR-05 CIAE-00 TRSE-00 EB-04  
SP-02 NSC-05 NSAE-00 L-01 IGA-01 OMB-01 /042 W  
-----109028 231713Z /47

R 231614Z JAN 78  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 4469

C O N F I D E N T I A L SECTION 2 OF 2 LISBON 0567

LIMDIS

DEPT PASS TREASURY FOR SYVRUD

5. FORMATION OF NEW GOVERNMENT: PRIME MINISTER SOARES MAY HAVE CONSIDERABLE PROBLEMS FILLING POSITIONS IN HIS NEW GOVERNMENT, AND PARTICULARLY THE ECONOMIC PORTFOLIOS. THE FINANCE MINISTRY, WHICH WILL PROBABLY ABSORB THE CURRENT MINISTRY OF ECONOMIC PLANNING AND COORDINATION, WILL BE THE MOST DIFFICULT TO FILL. SOUSA GOMES HAS NOT ONLY BEEN RULED OUT AS THE NEW FINANCE MINISTER, BUT ALSO FROM ANY OTHER CABINET POSITION. THE CURRENT MINISTER OF COMMUNICATIONS AND TRANSPORTATION RUI VILAR REPORTEDLY IS SOARES' PREFERRED CHOICE FOR FINANCE MINISTER, BUT VILAR HAS INDICATED A STRONG PERSONAL PREFERENCE FOR THE GOVERNORSHIP OF THE BANK OF PORTUGAL. IF VILAR DOES NOT ACCEPT THE FINANCE MINISTRY, CONSTANCIO ANTICIPATES THAT SOARES MAY ASK HIM. HE IS UNDECIDED WHETHER HE WOULD ACCEPT.

6. SILVA LOPES PLANS TO LEAVE THE BANK OF PORTUGAL AS ALREADY ANNOUNCED. CONSTANCIO BELIEVES THAT ONLY PRESIDENT EANES WOULD BE ABLE TO DISSUADE SILVA LOPES. HE IMPLIED THAT HE WOULD WELCOME AN USG EFFORT TO CONVINCE EANES TO PRESSURE SILVA LOPES INTO STAYING AT THE BANK OF PORTUGAL. DR. OTMAR EMMINGER OF THE GERMAN CENTRAL BANK REPORTEDLY RAISED THIS ISSUE WITH PRESIDENT EANES DURING  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 00567 02 OF 02 231700Z

THE LATTER'S RECENT VISIT TO GERMANY.

7. THE TRADE AND INDUSTRY MINISTRIES PRESENT PROBLEMS ALSO. A CDS NOMINEE WILL OCCUPY THE TRADE MINISTRY, BUT ITS CANDIDATE HAS AROUSED CONSIDERABLE OPPOSITION WITHIN BOTH THE PS AND CDS. MINISTER OF INDUSTRY NOBRE DA COSTA STILL HAS NOT STATED DEFINITELY THAT HE IS WILLING TO REMAIN IN THE CABINET. IN SHORT, THE NEW ECONOMIC

CABINET IS UNLIKELY TO TAKE SHAPE FOR A FEW MORE DAYS.  
OKUN

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NEGOTIATIONS, LOANS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 jan 1978  
**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978LISBON00567  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** DG ALTERED PER 78 LISBON 639  
**Executive Order:** X1  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780034-0015  
**Format:** TEL  
**From:** LISBON  
**Handling Restrictions:**  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t19780134/aaaabcqm.tel  
**Line Count:** 172  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 4e0025e1-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** LIMDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** LIMDIS  
**Reference:** 78 LISBON 540  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 01 jun 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3731715  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PORTUGAL AND THE IMF  
**TAGS:** EFIN, ECON, PO, IMF  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/4e0025e1-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014